

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SWF-02 AID-20 CEA-02 CIAE-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02 SP-03

STR-08 TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01 PA-04

PRS-01 USIA-15 DRC-01 /128 W
----- 063864

R 171849Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0482

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 17

BEGIN SUMMARY: STERLING WEAKENED SLIGHTLY THIS WEEK
AGAINST THE DOLLAR CLOSING ON THURSDAY (MAY 16) AT \$2.4130
DOWN 185 POINTS FROM LAST THURSDAY'S CLOSE. AGAINST OTHER
MAJOR CURRENCIES, STERLING'S TRADE-WEIGHT DEVALUATION
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WIDENED TO 18.52 PERCENT ON TUESDAY (MAY 14) BUT NARROWED

TO 17.61 PERCENT ON THURSDAY. GOLD WAS VERY STABLE THIS WEEK CLOSING AT \$164.75 ON THURSDAY, DOWN \$1.25 FROM A WEEK AGO. THE CURRENT ACCOUNT IN APRIL WAS IN DEFICIT BY 309 MILLION POUNDS, WITH A VISIBLE DEFICIT OF 391 MILLION POUNDS AND AN INVISIBLES SURPLUS OF 82 MILLION POUNDS. WHILE WHOLESALE PRICES ROSE 3-1/4 PERCENT IN APRIL REFLECTING HIGHER PRICES FOR TOBACCO AND ALCOHOLIC BEVERAGES INTRODUCED IN THE BUDGET, PRICES OF BASIC MATERIALS AND FUELS REMAINED ALMOST UNCHANGED FROM FEBRUARY AND MARCH. RETAIL SALES DROPPED BY 1.7 PERCENT IN APRIL. CHANCELLOR HEALEY, IN A MAJOR SPEECH BEFORE THE CBI, OUTLINED THE GOVERNMENT'S ECONOMIC STRATEGY, EMPHASIZING THE IMPORTANCE OF EXPORTS AND INVESTMENT. END SUMMARY

1. STERLING FELL BACK FROM LAST FRIDAY'S LEVEL (MAY 10) OF \$2.43 TO A LOW FOR THE WEEK OF \$2.4130 ON THURSDAY (MAY 16). STERLING HAS BEEN MOVING UP AND DOWN IN LINE WITH THE DOLLAR. STERLING'S EFFECTIVE DEVALUATION FELL TO 18.52 PERCENT ON TUESDAY (MAY 14), TAKING IT FOR THE FIRST TIME BELOW THE LEVEL (I.E. 18.35 PERCENT) WHERE THE NEW STERLING GUARANTEES FOR OFFICIAL OVERSEAS HOLDINGS TAKE EFFECT. HOWEVER, ON WEDNESDAY THE EFFECTIVE DEVALUATION NARROWED TO 17.29 PERCENT, AND CLOSED AT 17.61 PERCENT ON THURSDAY, COMPARED TO 17.40 PERCENT A WEEK AGO. GOLD REACHED \$167.25 LAST FRIDAY (MAY 10) AND MOVED STEADILY DOWNWARD THIS WEEK TO CLOSE AT \$164.75 ON THURSDAY.

2. IN APRIL, THE UK CURRENT ACCOUNT WAS IN DEFICIT BY 309 MILLION POUNDS AS COMPARED TO A DEFICIT OF 371 MILLION POUNDS IN MARCH (S.A., B/P BASIS). WHILE THE INVISIBLES SURPLUS WAS UNCHANGED FROM LAST MONTH AT 82 MILLION POUNDS THE VISIBLE TRADE DEFICIT IMPROVED FROM 453 MILLION POUNDS IN MARCH TO 391 MILLION POUNDS IN APRIL. MOST OF THE IMPROVEMENT WAS DUE TO A SUBSTANTIAL DECREASE IN THE NON-OIL TRADE DEFICIT. FOR DETAILS SEE LONDON 6069.

3. THE INDEX OF WHOLESALE PRICES - I.E. OUTPUT PRICES FOR DOMESTIC SALES OF MANUFACTURED PRODUCTS - ROSE BY 3-1/4 PERCENT IN APRIL TO STAND AT 147.2 COMPARED TO 142.5 IN MARCH (1970100). ABOUT A QUARTER OF THE APRIL RISE UNCLASSIFIED

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REFLECTED HIGHER PRICES FOR TOBACCO AND ALCOHOLIC DRINKS INCLUDED IN THE BUDGET AND, APART FROM THIS FACTOR, THERE WOULD HAVE BEEN SOME REDUCTION IN THE LEVEL OF PRICE INCREASES. THERE HAS, HOWEVER, BEEN A SLACKENING IN THE RATE OF INCREASE IN MANUFACTURERS' RAW MATERIAL AND OTHER INPUT COSTS. THE INDEX FOR MATERIALS STOOD AT 209.1 COMPARED TO 208.8 IN MARCH (1970100).

4. THE VOLUME OF RETAIL SALES DROPPED BY 1.7 PERCENT IN APRIL TO 108.5 FROM 110.4 IN MARCH (1971100). THE FIGURE IS AFFECTED BY SOME SPECIAL FACTORS, BUT IT INDICATES THAT THE COMBINED IMPACT OF HIRE PURCHASE AND CREDIT RESTRICTIONS AND ECONOMIC CONDITIONS MAY BE BRINGING A MARKED REDUCTION IN CONSUMER SPENDING.

5. ON TUESDAY, MAY 14, THE CHANCELLOR DELIVERED A MAJOR ADDRESS AT THE ANNUAL DINNER OF THE CONFEDERATION OF BRITISH INDUSTRY. THE INTENT OF THE SPEECH WAS TO REASSURE COMMERCE AND INDUSTRY THAT THE GOVERNMENT HAD NO INTENTION OF DESTROYING THE PRIVATE SECTOR OR ENCOURAGING ITS DECAY. THE ECONOMY WOULD BE MANAGED IN SUCH A WAY AS

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STR-08 TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01 DRC-01

PA-04 PRS-01 USIA-15 /128 W

----- 063908

R 171849Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0483

INFO AMEMBASSY BERN

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AMEMBASSY BRUSSELS

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TO FREE UP RESOURCES FOR EXPORTS AND TO ENCOURAGE INVESTMENT. MR. HEALEY SAID THAT WHILE PROFITS WOULD BE CAREFULLY MONITORED, ACTION WOULD BE TAKEN IF NECESSARY TO SEE THAT INVESTMENT WAS NOT ENDANGERED BY UNDUE RESTRICTIONS ON PROFITS. TEXT OF THE SPEECH WILL BE FORWARDED BY AIRGRAM.

6. FORWARD DISCOUNTS ON STERLING NARROWED SHARPLY ON MONDAY (MAY 13) BUT WIDENED ON TUESDAY (MAY 14) TO LEVELS WHERE THEY REMAINED FOR THE REST OF THE WEEK.
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	5/9	5/16	CHANGE
1 MONTH	0.62-1/2	0.53-1/2	DOWN 0.09
3 MONTHS	2.60	2.45	DOWN 0.15
6 MONTHS	6.40	5.95	DOWN 0.45

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY DEPOSIT RATES WERE RELATIVELY STABLE THIS WEEK.

	5/9	5/16	CHANGE
1 MONTH	12-13/16	12-1/2	DOWN 5/16
3 MONTHS	13-9/16	13-1/4	DOWN 5/16

	5/9	5/16	CHANGE
6 MONTHS	13-13/16	13-15/16	UP 1/8

8. EURODOLLAR RATES GENERALLY MOVED DOWNWARD DURING THE WEEK, BUT WERE SOMEWHAT HIGHER THAN A WEEK AGO.

	5/9	5/16	CHANGE
1 MONTH	11-3/8	11-3/4	UP 3/8
3 MONTHS	11-9/16	11-3/4	UP 3/16
6 MONTHS	11-7/16	11-5/8	UP 3/16

9. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 12 PERCENT ON FRIDAY, MAY 17, 1974.

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TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005